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## Agenda Item 3

June 15, 2011

### TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE

- I. **SUBJECT:** Affiliate Fund Investment Policies
- II. **PROGRAM:** Affiliate Investment Programs Division
- III. **RECOMMENDATION:** Recommend to the Investment Committee Approval for the following:
  - a. Repeal of the Affiliate Funds Policy
  - b. Adoption of the California Employers' Retiree Benefit Trust (CERBT) Policy
  - c. Adoption of the Judges' Retirement System II (JRS II) Policy
  - d. Adoption of the Legislators' Retirement System (LRS) Policy
  - e. Adoption of the Long-Term Care (LTC) Policy

### IV. ANALYSIS:

#### Background

The CalPERS Board administers the Judges' Retirement System II (JRS II) fund, Legislators' Retirement System (LRS) fund, California Employers' Retiree Benefit Trust (CERBT), and the Long-Term Care (LTC) fund and manages separate investment policy portfolios for each fund. These funds are referred to collectively as the "Affiliate Funds." Adopted in 2008, the Statement of Investment Policy for the Affiliate Funds (Affiliate Policy) sets forth the overarching investment purposes and objectives. Individualized policy portfolio asset allocation targets and ranges for each of the Affiliate Funds are detailed in attachments to the Affiliate Policy. The Affiliate Policy was last revised December 2008 to achieve consistency among the Public Employees' Retirement Fund (PERF), CalPERS Supplemental Income Plans and Affiliate Fund policies.

#### Repeal of the Affiliate Funds Policy

Staff is recommending repeal of the Affiliate Policy and adoption of separate investment policies for each of the Affiliate Funds to eliminate confusion raised by members and employers when referencing this document.

Note that the Supplemental Contribution Plan (SCP) Portfolio Fund is currently an attachment to the Affiliate Fund Policy. Effective March 2, 2009, the SCP Portfolio Fund was transitioned from a strategic asset allocation strategy within the Affiliate Policy to the CalPERS Moderate Asset Allocation Fund within the Statement of Investment Policy for Supplemental Income Plans. Therefore, no separate investment policy is necessary for the SCP Portfolio Fund.

Adoption of the California Employers' Retiree Benefit Trust, Judges' Retirement System II, Legislators' Retirement System and Long-Term Care Policies

Staff recommends adoption of separate policies for each of the Affiliate Funds. Following the Board's November 2010 asset liability management (ALM) workshop, the Investment Committee considered and approved new policy portfolios for the CERBT in March 2011, JRS II and LRS in April 2011, and the LTC in May 2011. These new policy portfolios are included in the attached Statement of Investment Policy for each of the Affiliate Funds.

Summary of Key Changes Incorporated Into the Separate Policies

Each of the four new policies was modeled in order & format from the PERF Policy. The following substantive changes were made to the individual policies:

- Adds Committee responsibility for approving asset classes and approving target allocation and ranges
- Replaces staff responsibilities with CIO responsibilities, in accordance with principles of delegated authority
- Adds responsibilities for external managers, if applicable
- Clarifies the need for an asset allocation review every three years for all funds except Long-Term Care, which requires an annual review
- Provides a table which indicates the Board-approved asset allocation targets and ranges
- Specifies allocations among five asset classes: U.S. Inflation-Linked bonds, U.S. Nominal Bonds, Global Equity, Global Public Real Estate and Commodities. These asset classes supersede and replace those listed in the Affiliates Policy.

Attachments

Attachment 1: Wilshire Consulting opinion letter

Attachment 2: Black-line version of the Affiliate Fund Policy (repealed)

Statement of Investment Policy for:

Attachment 3: California Employers' Retiree Benefit Trust (CERBT)

Attachment 4: Judges' Retirement System II (JRS II)

Attachment 5: Legislators' Retirement System (LRS)

Attachment 6: Long-Term Care (LTC)

## **V. STRATEGIC PLAN:**

These initiatives address two CalPERS Strategic Plan Goals:

- Goal VIII to manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions; and
- Goal IX to achieve long-term, sustainable, risk adjusted returns.

## **VI. RESULTS/COSTS:**

This item repeals the Affiliate Funds Policy, adopts separate Statements of Investment Policy for each Affiliate Fund and makes some necessary administrative changes. To reduce transitions costs, staff expects to move the portfolios to the new policies over a three month period.

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